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The Better Wage

THE BETTER WAGE

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THE BETTER WAGE

AN ANALYSIS OF GROUP BONUS LABOR PAYMENT

PREPARED AND PUBLISHED IN THE INTEREST OF BETTER BUSINESS

BY

ERNST & ERNST

A BUSINESS SERVICE

1926

THE BETTER WAGE

AN ANALYSIS OF GROUP BONUS LABOR PAYMENT

LABOR applied to materials in manufacture is one of the means to an end. The end is a satisfactory product made in the least possible time. In the average manufacturing plant, wages are paid to the individual worker for the results of his operations or for the privilege of using his time. The product, however, is the result of the combined efforts of many workers. Therefore, the wages paid do not serve the end, which, as expenditures, they are disbursed to serve; because they do not buy the results of cooperation. The consequence is many forms of waste and loss and the necessity of unduly large expenditures for inspection, supervision and accounting.

The report of one concern, a large one manufacturing automobiles, is that the adoption of the Group Bonus Labor Payment Plan resulted in an improvement in productive efficiency ranging from twelve to thirty-five per cent. Savings were made in direct labor costs amounting to several hundred thousand dollars annually, while the amounts in the pay envelopes were greatly increased. Greater accuracy in production counts was secured, yet much clerical detail was eliminated at a saving of many thousand dollars on the non-productive pay roll. Routine was simplified. Volume of scrap was cut. Workmen were benefitted and pleased. The quality of the product became easier to maintain. The plan is cited as a tonic to the entire manufacturing organization.

An important concern in another field reports, among many favorable results, that spoilage in one department was reduced from appallingly high figures (sometimes thirty-five per cent) to one-half of one per cent.

Another concern announces better quality of work, increased output per man, lower costs per piece, smaller labor turnover, more pay for the better workers, and a reduction of several thousand dollars a year in clerical expenses.

One concern says that their Group Bonus Plan is responsible for various reductions in overhead expense, including a saving in scrap and the cost of inspection work, for the period of one year, amounting to more than one hundred thousand dollars.

One manufacturer, in recommending the Group Bonus Plan to another, who had inquired about it, wrote in part: "Work in process inventory is smaller through greater rapidity of operation, and customers are better satisfied through more rapid deliveries. Employees have the utmost confidence. I have kept them happy and satisfied, while increasing their earnings and reducing our costs. Our costs are lower than ever before and our net profits greater." And from the letter of another concern in answer to the same inquiry: "Grouping not only cuts labor cost, but eliminates job tickets and necessity for keeping track of the quantity produced by each worker."

In many cases, the successful application of the Plan has been extended from productive labor to some of the non-productive divisions such as maintenance forces, stock handlers, yard and wharf gangs, and ship-

ping departments. Indirect labor connected with actual production—foremen, sub-foremen, set-up men, product-repair men, truckers, sweepers, etc.—is considered here as productive labor.

These several experiences are drawn from a mass of favorable comment on the subject of Group Bonus, which we have collected in our files in the form of letters, reports and various published papers and articles. These experiences, however, should not lead to any glowing generalizations. The Group Bonus Plan is simply a tool, the usefulness of which is determined by the ability of Management. In some cases, the nature of the business does not permit the use of the Plan at all; in other cases, it can be applied profitably in only a limited way. The Plan should be studied thoughtfully in the full light of one's own business situation and considered with vision, for its profitable possibilities.

Obstacles will suggest themselves, some of which on closer examination will prove only imaginary. While some of the real obstacles, constructive imagination may see as only temporary or picture as removable.

The purpose of the following pages is to set forth the Group Bonus Labor Payment Plan on a proper basis for the consideration of Management. The desire has been to avoid the expansions of argument, untried theory or technical details; to confine the text strictly to the simple essentials of adequate and dependable information arising from successful experience. The Plan is treated from the viewpoint of its application to productive labor, while its application to certain non-productive groups is briefly suggested.

THE PLAN

Under the Group Bonus Labor Payment Plan, pay for individual work is made subject to the results of teamwork. The workers are assembled into groups, and each worker is guaranteed the payment of an hourly base rate for his time, regardless of his production. If the efficiency of a group as a whole for a pay period is 75% of a standard, each of its members receives 1% of his base rate earnings as an additional wage or bonus. The bonus per cent increases for each increase of 1% in group efficiency.

Grouping

The number of workers that should be in a group, and whether they should work on a particular piece or different pieces, or on all or only a proportion of a series of operations, depends upon circumstances. Consideration must be given to such factors as product, equipment, operations, departments, routing, classes of workers and their wages. The object in view is the most desirable operating conditions in the plant as a whole and the highest interest on the part of the workers in the improvement of group efficiency.

The average number of workers in a group is between eight and twenty; yet the number in a particular group may run as low as two or three, or as high as three or four hundred, as exemplified by the final assembly line in a large automobile plant. As a general rule, groups of moderate size tend to be more earnest and more efficient than large groups. An ideal group would be one that takes a product through various processes up to a point where inspection and counting are logical.

Inclusion of Indirect Labor

With an occasional exception, such representatives of indirect labor as truckers, sweepers, set-up men, product repair men, assistants and foremen are assigned to proper groups and participate in bonus earnings. Whatever use they make of their time in a group has direct bearing on the group's efficiency rating. Indirect labor assigned in this way to productive groups is treated as direct labor.

Determination of Group Efficiency Ratings

If a group has to do only with the production of a particular piece, its efficiency per cent is determined by multiplying the group standard time per piece by the number of pieces accepted and dividing the result by the group's net actual time. If two or more different pieces are worked on, the quantity accepted in each case is multiplied by its group standard time unit and the sum of the results divided by the net actual time. Efficiency ratings are computed, ordinarily, from day to day. The rating for a pay period is found by adding up a group's daily standard hours and dividing the total by the total net actual hours. Each group is kept informed of its daily rating and cumulative rating to date.

Group net actual time is the sum of the hours worked by the individual members of a group, less idle or lost time.

Determination of Standards

A group standard time unit is arrived at by time studies and computation, and represents a reasonable period of time in which a group of average good workmen should do the unit of work.

Time studies and the determinations of group standard time units should necessarily be made by experienced practical men. It is customary and usually advisable to guarantee the workers that the standards will be maintained for six months, provided changes are not made in product, general method or equipment.

In some plants, the nature of production does not lend itself to the employment of standard time units. In one such case, our Group Bonus installation provided that carefully estimated labor costs be used as the standards and divided by actual costs to get efficiency ratings. The installation is a very successful one. The Plan, in its regular form, is applicable in most cases where it is practical to pay labor on a piece-work basis. The Group Bonus Plan is simply the expression of a principle. So wherever the principle applies, the plan is, in some form, adaptable, whether labor is paid on a piece-work basis or not.

Determination of Bonus

The amount of bonus to be received by each worker in a group is determined by multiplying his base rate earnings by the group bonus per cent. Idle or lost time in a group is prorated to all its members. While each member is paid for this time at his base rate, the amount is not included in the base rate earnings on which his bonus is figured.

Starting with a 1% bonus for group efficiency of 75%, the bonus per cent increases 0.6% for each increase of 1% in group efficiency up to 90%; then 1% for each additional per cent of efficiency up to 100%; and 1.2% for each additional per cent of efficiency over 100%. This scale of bonus per cent equivalents remains permanent, because of its correct mathematical relationship to wages and to costs. *Labor costs are adjusted by the revision of time standards at the end of a guarantee period or by the revision of base rates at any time.*

Base Rates

When the Group Bonus Plan is adopted by a concern, base rates for its various labor classifications are set in the light of the existing pay roll, character of work, status of the labor market, and the opportunities opened to the workers because of the bonus plan. These rates are subject to change at any time. Piece-work rates are discarded. The base rates for each classification are usually four—low, medium, standard and high. Inasmuch as a worker's bonus in dollars and cents is figured on his base rate earnings, whatever base rate he receives is reflected in his entire wage including bonus.

Inexperienced employees, newly hired and assigned to a group, or transferred to the group from another group, are paid at a fixed hourly rate for a short learning period. This period, during which the beginner receives no bonus, varies from a few hours to a maximum of usually not more than three days. The group is given credit for his production, but his time is not included in the group's net actual time and has no effect on the efficiency rating. At the expiration of the learning period the new worker shares in bonus earnings and must be carried by the group. If a beginner is known to have average ability on the work to which he is assigned, no learning period is allowed.

Improvement of Efficiency

To increase its per cent of efficiency, and its bonus per cent, a group must develop a better relationship between its actual and standard time; that is, give emphasis either to reducing its actual time or to increasing its output of acceptable pieces. This is regulated by Management to suit production requirements. If the output of particular groups runs ahead of a production schedule, the reduction in actual time is accomplished by having the groups work shorter hours or by eliminating men.

The possibility of being worked on shorter hours can not adversely affect the efforts of a group to improve its efficiency, because with any consequent decrease in base rate earnings, the corresponding increase in the bonus per cent would be sufficient to prevent a reduced wage. In effect, the men would earn time off with pay.

THE PLAN AS IT WORKS

Carelessness, incompetence, or shirking by any one man in a group, or delay in lending a hand to a fellow worker, reduces the bonus of every man in the group. If a man spoils material, his lost time is a money loss sustained by the group. If one or more men do good work on material, before some one member of the group spoils it, the lost time is that much multiplied. It is to every man's advantage not to pass along to his fellow workers his own defective work and to be on the lookout for defects in work passed on to him.

Under the Group Bonus Plan, the careless, lazy, squabbling, dishonest, dissatisfied or otherwise trouble-

some worker becomes answerable to his fellow workers as well as to management. He must get down to business or get out. A new man coming into a group is helped along by the others, because it pays—and he must learn quickly. The former foreman, sub-foreman or gang boss is a group leader and a productive worker. Work does not pile up at any one point in the group, because the bonus depends upon group output. Truckers, sweepers, set-up men, repair men, etc., must keep busy and help out whenever and wherever they can. The need for supervision is minimized. Management goes into partnership with its men and makes the results of greater efficiency and lower costs, a mutual profit.

Labor Costs

When the efficiency rating of a group fluctuates between 75% and 100%, or "standard," the corresponding fluctuation in wages is an inverse reflection, on a known mathematical basis, of a variation in the labor cost per unit of group output. The labor costs decrease as the workers' earnings increase. But when the efficiency reaches 100%, regardless of its fluctuation above that level and the corresponding fluctuation in the wage, the labor cost per unit does not vary.

For example: Let us say that a worker's base rate is 60c an hour and the efficiency of his group 75% on an output of six acceptable pieces an hour. The worker's pay with bonus would be .606 an hour and the cost of his labor per piece, .101. When group efficiency jumps to 90%, the output would be 7 1/5 acceptable pieces; the worker's earnings 66c and the cost of his labor per piece .0917. When efficiency reaches 100%, output would be eight acceptable pieces, worker's earnings 72c and

cost per piece .09. With efficiency at 125%, output would be ten pieces; worker's earnings 90c; cost per piece .09. With efficiency at 150%, output would be twelve pieces; worker's earnings 1.08, and cost per piece again .09.

If the group produced twelve pieces, of which only eleven were acceptable, the efficiency would drop to 137½%; the worker's earnings would be 99c; cost per piece, .09, indicating that payment is not made for his labor on the rejected piece which the group produced.

Let us assume that the group is 100% efficient and that we do not want its output to exceed sixty-four pieces a day. Our 60c an hour man working eight hours would be earning $5.76. If the efficiency went up to 125%, the sixty-four pieces would be finished in 6 2/5 hours; our man would have 1 3/5 hours off; his earnings would still be $5.76 and our cost per piece .09. If efficiency rose to 150%, he would get 2 2/3 hours off, while his earnings and our cost per piece would again remain at $5.76 and .09.

Determination of Labor Costs

The group labor cost per piece, if only one piece is worked on, is simply the quotient obtained by dividing the number of pieces accepted into the total wage paid to the group, less allowances recorded as chargeable to burden. If two or more different pieces are worked on, we first divide the total standard hours into the total group labor cost (total group wage less allowances chargeable to burden) to get a cost per standard hour. Then we multiply the cost per standard hour by the total standard hours assignable to each of the different

pieces and get, in each case, the quantity labor cost which we divide by its number of pieces.

Principle

When we pay a worker for the results of just his own operations, instead of for the results of cooperation or group effort, we must provide at our own expense a substitute for cooperation in the form of close supervision and complicated accounting, and we realize that our substitute is at best a poor one because of the expense of it and the wasted time, wasted materials and other wastes, which we can not control.

RESULTS

In the case of one of the Ernst & Ernst installations of the Group Bonus Plan, the labor cost on a particular piece, by the thousand, for the month preceding the installation, was $48.04—considered by the manufacturer a normal figure. The cost for the first month of Group Bonus operation was $38.60, and this latter figure reflects the payment of higher wages and includes a foreman's time which had been previously treated as burden. Comparable reductions in labor costs were accomplished on other pieces. A timekeeper and counter who had been needed for twenty-five or thirty workers was made able to handle at least two hundred. A cost department of six was replaced by one man on part time. Fifteen hundred pay roll calculations on a body of thirty operators were reduced to fifty.

In the case of another installation, the Plant Superintendent reported as follows (italics are ours):

"There is usually a very definite reason for any manufacturing plant changing from its standard procedure to some new method. As you know, all manufacturers, particularly the manufacturers of automotive parts, are working against extremely keen competition. *Two years ago we felt this competition very keenly in our particular work and looking into the future we decided the competitive condition would get worse rather than better.* With this in mind we made a very careful analysis of our factory conditions to see if we could devise some scheme *whereby we would receive progressive benefits over a period of time.* While making this analysis we studied the factors entering into our production such as wage payment, burden, personnel, material supervision, etc. After analyzing the data accumulated we found certain outstanding factors. Two main features developed, one of which was, that our plant was running an average of 96% paid piece work and 4% day work which covered such items as down time, lack of material, waiting for tools, breaking in new operators, etc. We felt that this condition was particularly healthy and we were more or less satisfied with our direct factory cost.

"The second feature developed was that our burden was too heavy. As you know, in all lines of manufacturing today, *the executive's big battle is with burden* and it was up to us to devise some way of reducing this factor.

"In making an ideal lay out of the plant, by which I mean we did not have any tool breakage, only absolutely necessary set up time, material always at the machine and so on, we found that less than 15% of what it was actually costing us was necessary under these conditions. The question was now, how to devise a system that would approach somewheres near this condition. At this time Group Bonus was suggested.

"I have had some experience with Group Bonus in the past and it proved very satisfactory, and in analyzing the Group Bonus with regard to our special plant conditions we decided it contained more nearly the elements of an ideal set up than anything else we knew of or could think of at that time, and it was decided to try out one group on this system of payment. The group we picked out was our automatic department.

"During the process of setting up a group price we decided that we would be ultra conservative on the items of burden charged to this department, so that after we had set up an ideal price which contained an allowance for what was absolutely necessary in the line of overhead, we made a further allowance to compensate for items over which we did not have absolute control. In this set up we incorporated the cleaners, truckers, inspectors, set up men and the foreman which had been charged as direct expense to this department. We decided that if we could train our operators to do their own inspecting as part of their regular job, if we could eliminate the set up men and if they would do their own trucking between times and charge against them just the necessary hours it would require a man to keep a department clean, we would have accomplished a great deal. *After two or three pay periods we began to show tremendous results.* Our machine down time was cut down, it only required part time of one man for set up, in his spare time he operated a battery of machines. It cut out inspectors costs easily 60% from that department and eliminated a foreman. As we only pay for the good parts from the machine our operators were very careful in their inspecting to see that no scrap or defective material was made. The way we handled this was that our inspection department received from the screw machine department the work they had made and gave

it a 10% inspection. If any defective material was uncovered this work was returned to the screw machine department to do their own inspecting on their own time or we ran an inspector on in the group which the group paid for. This was a very effective penalty and the men soon came to realize that their work must be good.

"Another point that is well worth mentioning is the fact that when we started out we did not have any idea of effecting much economy in our direct cost per piece but as the group developed, the men by eliminating ineffective operators, by eliminating down time, by speeding up their machines and many other economies they effected allowed us to make some very decided cuts in our prices which of course we shared with the group so that we reaped benefits in lower costs and men made higher wages.

"Our plant is now operating under 100% Group Bonus and *the economy effected in the screw machine department has been reflected over the entire plant.*

"Another pleasing factor of this system is the spirit of helpfulness that has been developed in the different groups. If a new operator comes into the plant or into the group, the personnel of that group see that he is instructed in the best way of doing the work and is helped in every way to make a success.

"The different groups have come to realize that individual brilliancy does not mean anything unless it is worked in very closely with the rest of the group and this factor has had a lot to do with the success of our experiment."

A worker's self-interest dictates that he pass along suggestions and ideas to his fellow workers; help management find good men to fill vacancies or take the place of incompetents, and in any other way aid in developing

the efficiency of his group. The relative efficiency ratings of the various groups give management a timely and valuable analysis of the labor factor in the operation of the plant as a whole.

Burden

Proper allowances are made to workers for rejections due to vendor defects and for irregular operating conditions such as condition of stock, tool or equipment troubles, machine break-downs and performance of non-standard operations. Such allowances, also cost of training new workers and allowances for idle or lost time, are treated as expenses, and each form of expense is identified by its explanatory title for the information and attention of management. *Burden thus analyzed and explained, and segregated from the indirect elements of productive labor, is refined, simplified and controllable.* If possible, of course, losses due to vendor defects are reclaimed from the vendors. The labor cost of paid for scrap can ordinarily be determined, and if it can be and the determination is not too costly, it should be determined and treated as burden.

Appreciable incidental savings in both factory and commercial burden have been made by various concerns through the application of the Group Bonus Plan to such non-productive labor as maintenance forces, stores departments, loading and unloading gangs, shipping departments, etc. In the case of the average unloading gang, the standard time unit would be for unloading or hauling a certain unit of weight. In the case of a wall washing gang, it would be for washing a designated square footage of wall space under one of three or four conditions of dirt accumulation. In the case of a certain

concern's shipping department, for which we were unable to develop time standards, we settled on the relation between budgeted and actual expense for the department as an efficiency rating.

Group Bonus in Relation to Budgeting

Under the most effective methods of business control, a concern's sales for an extended period of time—usually one year—would be carefully estimated in advance. Its production schedules, income, expenditures, financing and profits would all be planned in the light of the sales estimate. The predetermined material and labor costs and burden rates entering into the plans would reflect the concern's best judgment and experience as to what costs ought to be.

The result of this procedure is the Budget, while the predetermined costs are budgeted costs—or *Standard Costs.*

In the course of business, the management would frequently compare the budgeted operating results with actual results and give attention to variations between actual and standard costs, which variations would be recorded in their proper Variance Accounts. Adjustments in the budget and revisions in the standard costs are readily made to meet the demands of actual conditions and would be authorized whenever necessary. Accounting would be so conducted that most of the time, which is spent under antiquated systems in finding costs, could be devoted to finding out why actual costs vary from standard.

The budget sets up a definite goal to strive for, and provides the means through which all forces may

be coordinated and directed toward the attainment of a definite objective. It gives management a yardstick for measuring efficiency and accomplishment. It is designed to prevent over-expansion, over-production and over-expenditure.

Group Bonus Labor Payment facilitates budgeting and the determination of standard costs; simplifies the determination of and minimizes the variance in actual costs.

INSTALLATION

The process of installing the Group Bonus Labor Payment Plan can not be considered lightly. Before the actual installation work is even begun, the Plan should be explained and sold to the organization, then *applied at first in a limited way* and its operation carefully watched. The Plan does not come ready made. No two situations are alike. It must be properly developed in the light of specific conditions, and coordinated with sound methods of material control and cost accounting with proper control provided through the general accounting. Every detail of the work from its beginning to the smooth and effective operation of the Plan as a whole, requires knowledge and judgment based on wide experience in general shop practise and accounting.

Discussion with Plant Executives

Our first step, ordinarily, after being authorized to make an installation, is to have a thorough discussion of the subject with the factory management. It is reasonable to expect that the factory executives, at the start, may feel doubtful about success. "Cost reducing

schemes" that have failed are part of the experience or information of almost every Superintendent and General Foreman.

Presentation to Employees

Our next step is to present the Plan to the workers. They are likely to be suspicious and resist changes. The attitude frequently met with is: "I know what I've got, but I don't know what I'm getting." Talking with them from the position of the impartial outsider, we point out that the Plan is a genuine mutual profit proposition—an opportunity for employers to save money by eliminating shiftless workmen and other wastes, and an opportunity for earnest, conscientious employees to share in the saving. We argue with them that management is only too glad to have them earn more, when every extra dollar they make will benefit the business. We meet their objections with incidents reflecting the experiences of workers in other plants.

Workmen readily grasp the Plan when it is clearly presented and are quick to show their interest. But it is to be expected that some will still have suspicions and lack conviction that the operation of the Plan will benefit them. The fast operators on piece work, especially, will persist in expressing the fear that their earnings will be reduced. In the words of the Plant Superintendent whose report of successful experience we have already quoted: "The greatest difficulty you will have in attempting to install Group Bonus will be selling the idea to your people."

A pamphlet over the signature of the concern is distributed among its employees, briefly setting forth

the advantages of Group Bonus from their viewpoint. The computation of wages is so simple that every employee can easily learn to figure accurately his own earnings. An example showing how to do it is put in the pamphlet.

The general manager of one large plant, by giving a series of talks to the men during the course of our installation, made a distinct contribution to the ease and progress of our work.

One of the chief reasons for applying the Plan at first to one group of carefully selected workmen is to demonstrate to the rest of the plant that the opportunity offered to earn higher wages is more than mere talk. In most cases, one pay period is enough for the members of a trial group to find themselves making more money. As soon as they are making more, the news spreads. Before the Plan can be applied to a second group, employees are asking when they are going to be tried on Group Bonus. With management and the workers satisfied as to the merits of the Plan, we are ready to proceed rapidly with its installation.

Successful Operation

Uninterrupted and lasting success depends to a very large extent on whether or not a concern really keeps faith with its employees. Sincerity must be recognized as common sense. Group Bonus is a practical plan of control, conservation and profit through the payment of a Better Wage and the maintenance of confidence. On any other basis, it results only in disappointments. We must realize that a labor policy of fair treatment is not enough. We must enforce our policy.

We must not only *desire* to give the workers a square deal; but also *make sure* that they get it—and then give them every reason to feel that they *are* getting it.

The successful operation of Group Bonus Labor Payment calls for the appointment of a man in charge—Supervisor of Group Wage Payment. He has no authority over any particular department. He reports and is responsible directly to the General Manager. He should work in harmony with such departments as Time Study, Employment, Planning and Material Control, Cost, Engineering, and Accounting. He is in an arbitrating position between company and employees on such questions as base rates, allowances, standard time, working conditions and new help. He is supposed to maintain the coordination of general accounting, cost accounting and production. He should be able to see opportunities to refine and perfect the use of the Plan—to visualize in past records and present performance, future improvements. He must have personality and backbone enough to hold the respect and confidence of management and workers.

Some concerns are constantly trying out something new, yet never get anything that satisfactorily works—because they depend on a thing instead of the intelligence that should control it. Through the Group Bonus Labor Payment Plan it has been clearly demonstrated that the type of management which uses a fair method with success can use a better method with greater success. *Group Bonus Labor Payment is a dominant feature in the development of means through which the natural and unchanging laws of good management are made to control present day conditions.* In its right

place, it is the Better Wage—for employer, employee and the customers who buy the product—diverting a steady stream of dollars from waste and loss.

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